

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 NSC-05 NEAE-00 L-03 DODE-00 PM-04 SS-15

SP-02 MC-02 CIAE-00 INR-07 NSAE-00 AID-05 EB-07

COME-00 TRSE-00 OMB-01 /062 W

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TO SECSTATE WASHDC PRIORITY 6668

INFO SECDEF WASHDC PRIORITY

C O N F I D E N T I A L AMMAN 0279

E.O. 11652: GDS

TAGS: MASS, JO,US

SUBJECT: DEFENSE SALES AND ASSISTANCE -- U.S. CONTRACTOR
EXEMPTIONS

REF: 75 AMMAN 7151, 75 STATE 264607, 75 AMMAN 8659

1. DEPT IN REFTEL APPROVED GENERAL PROPOSAL FOR POR-
VIDING FOR U.S. CONTRACTOR TAX AND DUTY-EXEMPT STATUS
IN ACCORD WITH SIMILAR ARRANGEMENTS ALREADY IN EFFECT
FOR AID CONTRACTORS.

2. WE HAVE REVIEWED DRAFT NOTE (REF STATETEL) AND HAVE
TWO PROPOSED MIDIFICATIONS . IN PARAS ONE AND TWO THERE
IS A REFERENCE TO A CLASSIFIED AGREEMENT ("EXCHANGE OF
NOTES OF JUNE 25 AND 27, 1957, REGARDING MILITARY
ASSISTANCE". (SEE ALSO PARA 5 AMMAN 8659).

WE WOULD PREFER TO HAVE NO SUCH REFERENCE TO RECALL
THESE AGREEMENTS SINCE THEY PROVIDE FOR ASSISTANCE TO
JORDAN IN TERMS MORE RESTRICTIVE THAN REQUIRED BY LAW
OR APPLIED TO OTHER COUNTRIES GENERALLY. ALSO WE WOULD
WISH TO AVOID CLASSIFYING CURRENTLY-COMTEMPLATED EXCHANGE
OF NOTES, AS MIGHT POSSIBLY BE REQUIRED IF IT REFERS
TO A PREVIOUS CLASSIFIED EXCHANGE. WE WOULD DELETE LAST
SENTENCE PARA ONE AND IN FINAL SENTENCE PARA TWO EVERY-
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THING BETWEEN WORDS "REGARDED AS" AND WORDS "APPLICABLE

TO." FINALLY, WE BELIEVE IN PARA TWO INSTEAD OF WORDS "REGULARIZING" A MORE FELICITOUS RENDERING MIGHT BE "PROVIDING FOR " TO AVOID ANY CONNOTATION OF PREVIOUS IRREGULARITY ON ANY PARTY'S PART.

3. ONE ARGUMENT TO GOJ FOR ACCEPTING THESE PROVISIONS IS UNLIKELIHOOD OF SAUDI GOVERNMENT WILLINGNESS TO SEE FUNDS IT IS PAYING OUT FOR HAWK IN PART DIVERTED TO GOJ TREASURY THROUGH TAXES ON U.S. CONTRACTORS.

SECONDLY, WE HOPE GOJ WILL RECOGNIZE THAT IN ALL CASES TAXES TO GOJ WILL INCREASE CONTRACTOR CHARGES TO GOJ COMMENSURATELY AND THEREFORE WOULD NOT BE OF ANY NET FISCAL BENEFIT TO GOJ. AS A PRACTICAL MATTER GOJ HAS NOT ATTEMPTED TO COLLECT TAX FROM AID CONTRACTORS OR PERSONNEL AND WE WOULD HOPE THIS GENERAL ATTITUDE WILL APPLY IN CASE OF DOD CONTRACTORS AS WELL.

4. ON TAX QUESTION, WE NOTE THAT TIAS 3870 ONLY EXEMPTS CONTRACTORS AND PERSONNEL "FROM INCOME AND SOCIAL SECURITY TAXES LEVIED UNDER THE LAWS OF JORDAN WITH RESPECT TO INCOME UPON WHICH THEY ARE OBLIGATED TO PAY INCOME OR SOCIAL SECURITY TAXES TO THE USG..." (I.E., IT DOES NOT AUTOMATICALLY EXEMPT THEM FROM ALL POSSIBLE JORDANIAN TAXES.) HOWEVER WITH RESPECT TO CONTRACTOR PERSONNEL, WE ARE ASSUMING THAT CONGRESS WILL HAVE REPEALED BASIC DOLS 25,000 EXEMPTION FOR OVERSEAS RESIDENT U.S. CITIZENS AND THEREFORE ENTIRE SALARY OF U.S.CONTRACTOR PERSONNEL WILL BE SUBJECT TO US. TAX DURING PROPOSED LIFE OF HAWK PROGRAM; THUS NONE WOULD BE SUBJECT TO GOJ TAXES UNDER PROPOSED ARRANGEMENTS. WITH RESPECT TO CONTRACTORS, WE ASSUME ALL SUCH U.S.COMPANIES WOULD HAVE THEIR CORPORATE HEADQUARTERS IN THE U.S. AND THEREFORE WOULD BE SUBJECT TO PAYMENT OF TAXES TO THE USG ON THEIR ENTIRE INCOME RELATING TO ACTIVITIES IN JORDAN. IF SO,THEY TOO WOULD THEREFORE BE EXEMPT FROM TAX PAYMENT TO GOJ.

5. AMBASSADOR WOULD LIKE TO EXPLORE DRAFT AGREEMENT INFORMALLY WITH PRIME MINISTER (ALSO MINISTER OF FOREIGN AFFAIRS) RIFAI NEXT WEEK. EARLIER INFORMAL CONFIDENTIAL

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CONTACTS WITH JORDAN ARMED FORCES INDICATES THEY BELIEVE THAT WOULD BE APPROPRIATE CHANNEL. WE DO NOT KNOW WHETHE CIRCULAR 175 AUTHORITY IS REQUIRED TO BEGIN INFORMAL CONTACTS. IN VIEW OF RAYTHEON'S DESIRE TO PREPARE EARLY A DRAFT CONTRACT THE INFORMATION ON EXEMPTIONS,ETC., IS REQUIRED SOON. WOULD APPRECIATE EARLY DEPT ACTION.

6. ACTION REQUESTED: APPROVAL FOR INFORMAL
APPROACH TO PRIME MINISTER ALONG PROPOSED
THIS TELEGRAM.
PICKERING

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Margaret P. Grafeld
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